RANCHO
LPG Holdings LLC

April 11, 2013

Ms. Mary Wesling (SFD-9-3)
Environmental Scientist
U.S. EPA Region IX
75 Hawthorne Street
San Francisco, CA 94105

RE: Rancho LPG Holdings, LLC is Operating in Full Compliance with Section 112(r)(7) of the Clean Air Act

Dear Ms. Wesling:

Rancho LPG Holdings, LLC ("Rancho") has conducted a careful review of the issues raised in EPA's letter of March 14, 2013, regarding Rancho's safety practices at the San Pedro Terminal. We are pleased to inform you that, based our review, Rancho is, and has been, in full compliance with Section 112(r)(7) of the Clean Air Act.

INTRODUCTION

As you know, Rancho acquired the San Pedro Terminal in November 2008. Since that time, Rancho has made significant investments in the Terminal, primarily to improve its safety, technology and mechanical integrity. Through the end of the first quarter of 2013, Rancho has invested more than $7 million toward these efforts. Since acquiring the San Pedro Terminal, Rancho has worked diligently to ensure that the Terminal is in compliance with all federal, state and local regulations and requirements. Rancho has hosted numerous federal, state and local regulatory agency inspections and audits. And, Rancho has opened the lines of communication with elected officials and community leaders to increase the transparency of its operations.

This letter discusses each of the six issues raised by EPA in its letter of March 14, 2013. We believe the letter demonstrates that Rancho is in full compliance with Section 112(r)(7) of the Clean Air Act and the implementing regulations. We look forward to discussing our responses with you in more detail and to answering any questions you may have. We also look forward to working with you to ensure that the San Pedro Terminal always operates safely and in full compliance with the law.

In its March 14, 2013 letter, EPA raised six safety issues. In the next section of this letter, we identify those six issues and summarize the conclusions of our review of each of the issues. A more detailed analysis follows.

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SUMMARY

First Issue: Did Rancho properly assess the hazards in its rail storage area? Yes, Rancho conducted a proper hazard assessment of its process, including the rail storage area. The San Pedro Terminal, including the rail storage area, constitutes a single process under the regulations and EPA guidance. In addition, at EPA's request, Rancho re-assessed the hazards in its rail storage area as though the rail storage area were a separate process.

Second Issue: Did Rancho adequately evaluate seismic stresses on the required structures? Yes, Rancho evaluated seismic stresses on all systems that would be required to operate following an earthquake. In addition, at EPA's request, Rancho conducted a seismic assessment of the emergency flare, a system that would not be required to operate following an earthquake.

Third Issue: Did Rancho address the consequences of the failure of engineering controls in the event of a fire? Yes, Rancho addressed the consequences of the failure of engineering controls in its process hazard analysis. The city water system is not an engineering control at the San Pedro Terminal.

Fourth Issue: Did Rancho inspect its Tank T1 in compliance with recognized standards? Yes, Rancho inspected tank T1 in compliance with the standard practice identified in EPA's letter. Rancho properly determined the timeframe for inspecting tank T1 using the standard practice, and conducted an internal inspection of tank T1 in March 2012.

Fifth Issue: Did Rancho develop and implement a proper emergency response plan? Yes, Rancho's emergency response plan identifies the San Pedro Terminal as a facility that relies on the local fire department for response to a potential release. Rancho has coordinated with the local fire department and other emergency responders and has procedures in place for notification in the event of an emergency.

Sixth Issue: Did Rancho ensure that all of its piping systems are tested for mechanical integrity? Yes. Rancho's mechanical integrity program tests the integrity of all process piping systems at the San Pedro Terminal. In addition, at EPA's request, Rancho included the stormwater drain pipe and valve—piping that does not convey process fluids—in its mechanical integrity program.

ANALYSIS

A more detailed response to each of the six issues is provided below:

1. At the San Pedro Terminal, butane is received, then stored, and ultimately transported to customers by pipeline, rail and/or truck. The San Pedro Terminal consists of a series of vessels and tanks that are interconnected, as well as rail cars and truck containers that are connected to the vessels and tanks by facility piping, hoses and loading arms. Rail cars that have been loaded are staged on the same track as the rail cars that are in the process of being loaded. In its

original Risk Management Plan ("RMP"), Rancho considered the entire San Pedro Terminal, including the rail storage area, to be a single process.

The regulations define "process" to mean "any activity involving a regulated substance, including any use, storage, manufacturing, handling or on-site movement of such substances, or combination of these activities. For the purposes of this definition, any group of vessels that are interconnected, or separate vessels that are located such that a regulated substance could be involved in a potential release, shall be considered a single process." 40 CFR §68.3. According to EPA guidance, a series of interconnected vessels containing threshold quantities of regulated substances and any co-located storage vessels containing flammable substances constitute a single process. EPA General Risk Management Program Guidance, Chapter 1 Exh. 1-2 (April 2004) (hereinafter, "RMP Guidance"). This is the case even if the interconnected vessels connected by piping or hoses for transfer of the regulated substance are sometimes disconnected. RMP Guidance, Chapter 1 §1.4. As long as the co-located vessels are located sufficiently close to the interconnected vessels such that an event at one vessel could impact the other vessels, the entire configuration comprises a single process. *Id.*

The San Pedro Terminal consists of a series of interconnected vessels, tanks and rail cars, along with co-located storage vessels and staged rail cars containing flammable substances above threshold quantities. The interconnected vessels, including the tanks and rail cars, are connected by piping and hoses that are sometimes disconnected. At the San Pedro Terminal, an event at the interconnected vessels, tanks and/or rail cars could impact co-located vessels and staged rail cars. Therefore, based upon EPA's RMP Guidance, the San Pedro Terminal constitutes a single process.

In considering the entire San Pedro Terminal, including the rail storage area, as a single process, Rancho properly assessed the rail storage area in its RMP. Rancho conducted a hazard assessment of the San Pedro Terminal, as a single covered process, in accordance with 40 CFR §68.12 (a) and (d) (2). The process is classified under 40 CFR §68.10(d) as a Program 3 process. (The process is not eligible for classification under Program 1). 40 CFR §68.10(b)(2). Rancho included the rail storage area in its original hazard assessment in full compliance with the applicable regulations and guidance.

EPA later approached Rancho and requested that Rancho revise its RMP to separate out the rail storage area as a separate process. While Rancho's RMP and hazard assessment properly assessed the rail storage area as part of a single covered process at the San Pedro Terminal, Rancho agreed to revise the RMP to separate out the rail storage area as a second process, and this resulted in no change to Rancho's Offsite Consequence Analysis. Rancho submitted its revised RMP to EPA on February 9, 2011. The submittal certification documentation for the revised RMP is attached to this letter as Appendix A.

2. Equipment at the San Pedro Terminal complies with recognized and generally accepted good engineering practices. As part of Rancho's five-year Process Hazard Analysis ("PHA") and California Accidental Release Prevention Program ("CalARP") revalidation effort in October 2009, the seismic assessment for the San Pedro Terminal was updated. Rancho engaged an Irvine, California-based consultant to conduct this seismic assessment, and the assessment included evaluation of all equipment that had the potential to immediately release hazardous substances.

Under 40 CFR §68.65(a) and (d)(2-3), an owner/operator must compile process safety information, including information pertaining to the equipment in the process. This requirement includes documenting that equipment complies with recognized and generally accepted good engineering practices. Where the equipment was designed and constructed in accordance with codes or standard no longer in general use, an owner/operator must determine and document that the equipment is designed, maintained, inspected, tested and operated in a safe manner. 40 CFR §68.65(d)(2), (3). CalARP imposes similar requirements on an owner/operator. 19 CCR §2760.1.

A seismic assessment of certain systems is required under the EPA regulations and the CalARP program. Among the systems that must be evaluated in a seismic assessment are: (1) covered processes; (2) adjacent facilities whose structural failure or excessive displacement could result in the failure of systems that contain a regulated substance; and (3) "[o]nsite utility systems and emergency systems which would be required to operate following an earthquake for emergency reaction or to maintain the facility in a safe condition." Guidance for CalARP Program Seismic Assessments §1.2 (January 2004) (hereinafter, "CalARP Seismic Guidance"). Examples of onsite utility or emergency systems included in a seismic assessment are emergency power systems, leak detectors, pressure relief valves, firewater pumps and their fuel tanks, and cooling water systems. *Id.*

When the seismic assessment for the San Pedro Terminal was updated, Rancho and its consultant evaluated the equipment in the covered process, and onsite utility and emergency systems that would be required to operate following an earthquake. The emergency flare is not an emergency system that would be required to operate after an earthquake for emergency reaction or to maintain the facility in a safe condition. Following an earthquake of 5.3 magnitude or greater, a seismic sensor device located in the control room is automatically activated which immediately shuts down the entire facility; as a result, no product would be released to the flare after such an earthquake. Following an earthquake of less than 5.3 magnitude that resulted in a possible leak or equipment damage, the operator could manually activate a specific Emergency Shutdown Device ("ESD") button to shutdown and isolate the area within the facility where the leak or equipment damage occurred. Additionally, the Operator could manually activate the main ESD button located in the control room which would immediately shut down the entire plant. In either event, the emergency flare would not be

required to operate following an earthquake and, as a result, a seismic evaluation of the flare and the flare support structure was not required by the applicable regulations and guidance. As such, Rancho was in full compliance with 40 CFR §68.65(a) and (d)(2-3) and the CalARP Seismic Guidance.

In June 2010, EPA approached Rancho and requested that Rancho include the flare and flare support structure in an amended seismic assessment. While Rancho's five-year seismic assessment properly distinguished between structures that required evaluation and structures that did not, Rancho agreed to conduct an assessment of the flare and flare support structure. Rancho hired a third-party engineering firm to complete that assessment. Rancho then proceeded to implement the recommended modifications to the flare stack foundation. These modifications were verified during a Los Angeles Fire Department (CUPA) audit in August 2011.

3. Rancho performed a process hazard analysis in conformance with the regulations and the guidance provided by California's Accident Release Prevention Program ("CalARP"). *See* 40 CFR § 68.67(c)(4). The process hazard analysis included an analysis of the consequences of failure of engineering and administrative controls, as required by Section 68.67(c)(4).

Section 68.67 requires the owner or operator to perform a process hazard analysis on covered processes at a facility. Two items that must be addressed in a process hazard analysis are "engineering and administrative controls applicable to the hazards" of the covered process, and the "consequences of failure of" those controls. 40 CFR §68.67(c)(3), (4). Administrative controls are defined as "written procedural mechanisms used for hazard control." 40 CFR §68.3. The regulations do not provide a definition of engineering controls. However, there are a number of definitions of engineering controls available from other sources. OSHA defines engineering controls as methods that are built into the design of a plant, equipment or process to minimize the hazard, including process controls, enclosure or isolation of the hazard and ventilation. OSHA, Safety & Health Management Systems eTool, Hazard Prevention and Control, *available at* http://www.osha.gov/SLTC/etools/safetyhealth/comp3.html (hereinafter, "OSHA eTool"). The Encyclopedia of Occupational Safety and Health defines engineering controls as "changes to the process or equipment that reduce or eliminate exposures to an agent." Stewart, J., *Occupational Hygiene Control of Exposures Through Intervention,* in *Encyclopedia of Occupational Safety and Health* (1998). Finally, the Office of Technology Assessment defined engineering controls as "those methods employed to control hazards at their source or in transmission." Office of Technology Assessment, *Preventing Injury and Illness in the Workplace* (1985).

OSHA provides further guidance on engineering controls. OSHA states the "best strategy to control the hazard is at its source." OSHA eTool. Further, "the basic concept behind engineering controls is that, to the extent feasible, the work environment and the job itself should be designed to eliminate hazards or reduce exposure to hazards." *Id.*

"The most effective controls are engineering controls that physically change a machine or work environment to prevent employee exposure to the hazard." *See* T. Dean, "Worksite Hazard Analysis" (PowerPoint *available at* http://www.osha.gov/dte/grant_materials/fy07/sh-16625-07/worksitehazanalysis2.ppt). Examples of engineering controls include: (1) elimination of the hazard; (2) substitution of equipment or process to decrease the hazard; (3) isolation using devices such as interlocks, machine guards, blast shields; and (4) removal or redirection of the hazard (e.g., exhaust ventilation). *Id.*

In a worker exposure context, engineering controls are meant to prevent the exposure of workers to hazardous materials. In a chemical accident prevention context, engineering controls are also meant to prevent the exposure of the public to hazardous materials. However, the underlying concept of engineering controls remains the same. Engineering controls are changes made to a facility process that controls hazards at their source to reduce or eliminate exposures. Engineering controls do not include systems outside the facility process that provide after-the-fact responses to releases of hazardous materials. And, engineering controls do not include systems designed, operated or controlled by third parties. The City water system is a system outside the San Pedro Terminal, its process and its equipment. It may provide after-the-fact response to a release, but is controlled by a third party. The city water system, therefore, is not an engineering control built into the design of the Terminal, its equipment or its covered process. As a result, Rancho properly evaluated the failure of the engineering controls built into the Terminal, its equipment and its process in its process hazard analysis.

In March 2013, EPA approached Rancho and requested that Rancho address the consequences of a failure of the city water system. While Rancho's process hazard analysis properly addressed the consequences of the failure of all of the applicable engineering controls, Rancho discussed this issue with its contracted Oil Spill Response Organizations ("OSROs"). Rancho has confirmed the ORSOs have the means to transport fire-suppression water to emergency responders at the San Pedro Terminal. In addition, Rancho confirmed that, as a member of the Southern California Industrial Mutual-Aid Organization ("SCIMO"), it has access to a number of additional resources in the event of an emergency.

4. Rancho ensures that inspection and testing procedures for tanks at the San Pedro Terminal follow recognized and generally accepted good engineering practices. Tanks T1 and T2 are low pressure storage tanks designed and built to API 620 standards. There is currently no recommended inspection practice for low pressure storage tanks built to API 620 standards. In this circumstance, it is generally accepted industry practice to utilize API Standard 653, and Rancho follows this practice. API Standard 653 requires periodic in-service inspection of tanks to assure continued tank integrity. API Standard 653 specifies that the initial internal inspection interval can be established either based upon safeguards associated with the specific tank or by

using a Risk Based Inspection ("RBI") assessment. *See* APR Standard 653, §§6.4.2.1.1, 6.4.2.1.2, 6.4.2.2.2. The interval between internal inspections "shall be determined in accordance with either the corrosion rate procedures of [section] 6.4.2.2.1 or the risk based inspection procedures as outlined in [section] 6.4.2.2.2." API Standard 653, §6.4.2.2. API Standard 653 does not dictate how corrosion rates should be determined. Allowable methods include "nondestructive examinations" and "similar service" methods, which anticipate corrosion rates for un-inspected tanks based on the documented corrosion rate for tanks in similar service that have been internally inspected.

Rancho believes, based upon the information it received from the previous owner of the San Pedro Terminal, that internal inspections of tanks T1 and T2 had not been previously conducted. Immediately upon becoming the owner and operator of the Terminal, Rancho implemented a robust mechanical integrity program, which included an API 653 internal inspection of tank T2 in April 2009, as well as API 510 and 570 inspections of other vessels and piping loops. The API 653 internal inspection of tank T2 found it to be suitable for continued service, with no evidence of any condition detrimental to the continued safe operation of the tank. In September 2010, Rancho retained an outside tank inspection firm to perform an RBI assessment of tanks T1 and T2. As part of the RBI assessment, Rancho's consultant determined the corrosion rate for tank T1 using the documented corrosion rate for tank T2, a tank in similar service that had been internally inspected. The results of the RBI assessment established inspection frequencies for both tank T1 and T2 and determined that an internal inspection of tank T1 was not imminently required. Rancho established the internal inspection intervals for both tanks T1 and T2 in compliance with API Standard 653.

Based on the results of the RBI assessment, Rancho scheduled and performed a complete API 653 internal inspection of tank T1 on March 31, 2012. The findings of the inspection demonstrated that tank T1 is suitable for continued service with no evidence of any condition detrimental to the continued safe operation of the tank. The result of the internal inspection validated the results of Rancho's RBI assessment of tank T1. Rancho acted in accordance with API 653 standards and followed recognized and generally accepted good engineering practices.

5. Rancho's San Pedro Terminal is in compliance with the emergency response obligations set forth in the regulations. The San Pedro Terminal is classified as a non-responding facility under 40 CFR §68.90(b). Under 40 CFR §68.90, facilities where employees will not respond to accidental releases of regulated substances do not develop emergency response programs, provided the facility coordinates with local response agencies to ensure that those agencies will be prepared to respond to an emergency at the facility. Such facilities must ensure that they have established notification procedures for emergency response. 40 CFR §68.90(b)(3). If the facility has a covered process with a regulated toxic substance, the facility must be included in the community emergency response plan developed under 42 U.S.C. §11003. 40 CFR §68.90(b)(1). If the facility has a covered process with a regulated flammable substance, the facility must

ensure that the local fire department is capable of responding to a potential release and is aware of its responsibility to do so. 40 CFR §68.90(b)(2). At non-responding facilities, employees are permitted to respond to minor incidents, such as small leaks, spills or fires not associated with the covered process. *See* EPA RMP Guidance §8.1.

In its March 14, 2013 letter, EPA asserts that Rancho's emergency response plan identifies the San Pedro Terminal as a responding facility and that Rancho has failed to develop and implement an emergency response program. This assertion misconstrues Rancho's Emergency Response Plan ("ERP"). Rancho's RMP indentifies the San Pedro Terminal as a non-responding facility. It also indicates that Rancho's ERP includes procedures for the notification of local fire, law enforcement, and medical organizations in the event of an emergency. Further, Rancho's ERP is clear that for emergencies, Rancho employees are to contact local emergency responders. Rancho employees are trained to take personal protective measures, restrict access into the facility, move injured personnel to safe location, initiate First Aid, verify type of product and quantity released, determine if evacuation is necessary, and provide instructions to employees for meeting at a pre-determined muster point. Rancho employees are also trained to respond to minor incidents, spills and small fires unrelated to the covered process. However, this fact does not transform the San Pedro Terminal into a responding facility, as EPA has suggested; EPA guidance is clear that employees at non-responding facilities are permitted to respond to minor incidents. Because the San Pedro Terminal is a non-responding facility, it is not a facility that would develop or implement an emergency response program.

The San Pedro Terminal does not operate a covered process with a regulated toxic substance. The San Pedro Terminal would therefore not be included in the community emergency response plan developed under 42 U.S.C. §11003. The San Pedro Terminal does operate a process with a regulated flammable substance, and has designated the local fire department as the responding agency. To ensure that the local fire department is capable of responding to a potential release and is aware of its responsibility to do so, Rancho has coordinated extensively with the local fire department. That coordination has included multiple meetings with local fire and police department personnel to discuss the San Pedro Terminal and procedures for responding to a potential release.

Rancho held two meetings with local responders in 2012. In October 2012, Rancho met with senior representatives of the Port of Los Angeles Harbor Homeland Security and the Los Angeles Fire and Police Departments. During the meeting, an outside process safety expert explained the physical properties of butane and propane and how to respond to a release. Significant discussion occurred regarding emergency notification procedures, evacuation procedures and shelter-in-place options in the event of an emergency. Evacuation procedures were discussed, including a Rancho-commissioned study to identify contact information for evacuees, and Rancho's access to the Public Information Emergency Response System, a public notification system. The Los Angeles Police Department ("LAPD") informed Rancho that LAPD would take

the lead on evacuation in the event of an emergency and would utilize its internal resources and reverse-911 system to complete any required evacuation.

In December 2012, Rancho held a meeting with the Los Angeles Fire Department ("LAFD"). Rancho operations personnel provided the LAFD representatives with the history, description and orientation of the San Pedro Terminal, and reviewed credible or likely release scenarios. LAFD is capable of responding to a potential release and is aware of its responsibility to do so.

Rancho has also established notification procedures for emergency responders. Section 4 of the Emergency Response Plan sets forth external notification requirements and guidelines in the event of an emergency or accidental release. This section of the Emergency Response Plan includes phone numbers (and contact names when available) for federal and state agencies, fire and police departments, emergency medical services, hospitals, Oil Spill Response Organizations, neighboring facilities, businesses, local schools, service providers, surveillance and security companies, transportation companies and waste management companies. Rancho periodically tests these contacts to make sure they are current. Rancho employees are trained to make the appropriate external notifications and document case numbers if issued.

Rancho is in full compliance with its emergency response obligations. As a non-responding facility under 40 CFR §68.90(b), the San Pedro Terminal has coordinated with the local fire department to ensure it is capable of responding to a potential release and is aware of its responsibility to do so, and has procedures in place to notify the fire department and other emergency responders when there is a need for a response.

6. At the San Pedro Terminal, Rancho follows the piping inspection practices contained in API Standard 570, which is the recognized and generally accepted practice in the industry. API Standard 570 "applies to piping systems for process fluids, hydrocarbons, and similar flammable or toxic fluid services, such as the following: a)raw, intermediate, and finished petroleum products; b) raw, intermediate, and finished chemical products; c) catalyst lines; d) hydrogen, natural gas, fuel gas, and flare systems; e) sour water and hazardous waste streams above threshold limits, as defined by jurisdictional regulations; f) hazardous chemicals above threshold limits, as defined by jurisdictional regulations; g) cryogenic fluids ...; [and] h) high-pressure gases greater than 150 psi ...." API Standard 570, §1.2.1. Many of the piping systems at the San Pedro Terminal are of the type covered by API Standard 570.

The drain pipe located in the base of the containment basin and the valve located near Gaffey Street are used to convey stormwater that may accumulate in the containment basin. The drain line and valve are not the type of piping system covered by API Standard 570. Because stormwater is not the type of process fluid covered by API Standard 570, the drain pipe and valve would not be inspected, tested or included in a mechanical integrity program. Rancho was

in compliance with 40 CFR §68.73(d) with respect to all piping systems covered by API Standard 570.

In March 2012, EPA approached Rancho and requested that Rancho include the drain pipe and valve in its mechanical integrity program. While API Standard 570 does not require piping systems that convey stormwater to be included in a mechanical integrity program, Rancho subjected the drain line to a certified third-party diagnostic camera run, which verified its integrity. Rancho also operates the valve on an annual basis to ensure its functionality. Additionally, Rancho has also installed a second valve on this drain line, inside the containment basin, to further isolate any accumulated fluid to the containment basin. The work orders for the valve operation checks are attached in Appendix B.

CONCLUSION

As explained in detail above, Rancho is in full compliance with Clean Air Act Section 112(r)(7) and the implementing regulations. With respect to several of the issues raised by EPA (the rail storage yard, the seismic analysis and the stormwater drain pipe), Rancho's initial analyses were in full compliance with the regulations. EPA subsequently approached Rancho to ask Rancho to go above and beyond the regulatory requirements. In each instance, Rancho responded positively and undertook the additional requested work.

With respect to several of the issues (the engineering controls, tank inspections and emergency response plans), Rancho is in full compliance with the statute, the implementing regulations or generally accepted good engineering practices incorporated by reference into the regulations. In either event, Rancho is interested in working with EPA—as it has worked with local emergency responders—to ensure that the San Pedro Terminal always operates safely and in full compliance with the law.

We look forward to discussing our responses with you in more detail and to answering any questions you may have.

Sincerely,

Ronald Conrow

Ronald Conrow
Western District Manager
Plains LPG Services, LP

Cc:
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